Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization) d/b/a Miami Children's Hospital

Consolidated Financial Report
December 31, 2013

McGladrey

Assurance ▪ Tax ▪ Consulting

Contents

McGladrey

Independent Auditor's Report

To Board of Directors
Variety Children's Hospital, Inc.
d/b/a Miami Children's Hospital

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Variety Children's Hospital, Inc. d/b/a Miami Children's Hospital and its subsidiaries (the Hospital) which comprise the consolidated balance sheet as of December 31, 2013 and the related consolidated statement of operations and changes in net assets and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the December 31, 2013 financial statements of Miami Children's Hospital Foundation, Inc., a foundation in which the Hospital maintains a beneficial interest. These statements reflect a beneficial interest of $81,811,997 in the net assets of Miami Children's Hospital Foundation, Inc. as of December 31, 2013, and an increase in the net assets of Miami Children's Hospital Foundation, Inc. of $692,769 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Miami Children's Hospital Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Member of the RSM International network of independent accounting, tax and consulting firms.

Opinion

In our opinion, based on our audit and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Variety Children's Hospital, Inc. d/b/a Miami Children's Hospital and its subsidiaries as of December 31, 2013, and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of the Hospital as of and for the year ended December 31, 2012, were audited by other auditors whose report dated April 30, 2013 expressed an unmodified opinion on those statements, except their report indicated that the Foundation was audited by other auditors and their opinion as it relates to the Foundation, was based solely on the report of the Foundation's auditors.

McGladrey LLP

Miami, Florida
April 23, 2014

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Consolidated Balance Sheets
December 31, 2013 and 2012

Assets	2013	2012
Current Assets		
Cash and cash equivalents	$ 46,917,559	$ 21,575,974
Patient accounts receivable, net of allowances of $8,183,000 and $6,526,000 in 2013 and 2012, respectively	60,483,784	51,015,332
Current portion of assets limited as to use	13,276,892	7,366,049
Other current receivables, including amounts due from Miami Children's Hospital Foundation of $3,392,000 and $2,227,000 in 2013 and 2012, respectively	10,324,876	12,141,045
Inventories	5,167,346	5,188,885
Prepaid expenses	6,803,678	5,845,842
Total current assets	142,974,135	103,133,127
Assets limited as to use:		
Self-insurance funding arrangement held by trustee	36,077,171	38,021,691
Designated for funded depreciation	242,943,118	240,310,459
Bond indenture agreements held by trustee	51,112,178	58,569,036
Restricted investments	3,745,597	8,845,034
Total assets limited as to use, net of current portion	333,878,064	345,746,220
Investments	49,758,107	35,895,550
Bond issue costs, net	3,029,525	1,799,902
Beneficial interest in Miami Children's Hospital Foundation's net assets	81,811,997	81,119,228
Property and equipment, net	328,988,632	293,745,151
Other long-term assets	17,837,995	16,140,939
Total assets	$ 958,278,455	$ 877,580,117

See Notes to Consolidated Financial Statements.

	2013	2012
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 78,723,303	$ 73,690,696
Current portion of notes payable	888,000	888,000
Estimated third-party settlements payable	7,717,056	7,126,209
Current portion of liability for self-insurance	13,276,892	7,366,049
Current portion of bonds payable	2,050,000	33,625,000
Total current liabilities	102,655,251	122,695,954
Liability for self-insurance	49,251,486	53,714,674
Fair value of swap agreements	25,418,099	48,129,032
Long-term portion of notes payable	1,776,000	2,664,000
Long-term portion of bonds payable	234,925,193	205,623,505
Other long-term liabilities	4,046,816	4,777,403
Total liabilities	418,072,845	437,604,568
Net assets:		
Unrestricted:		
Variety Children's Hospital and subsidiaries	439,444,190	345,703,186
Noncontrolling interest in subsidiary	405,000	-
Total unrestricted net assets	439,849,190	345,703,186
Temporarily restricted	70,190,635	64,622,765
Permanently restricted	30,165,785	29,649,598
Total net assets	540,205,610	439,975,549
Total liabilities and net assets	$ 958,278,455	$ 877,580,117

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2013 and 2012

	2013	2012
Revenues, gains, and other support:		
Patient service revenue	$ 507,081,401	$ 456,791,712
Provision for bad debts	12,707,280	9,659,424
Net patient service revenue	494,374,121	447,132,288
Grant and other revenue	30,874,674	26,954,301
Investment income	18,168,870	21,949,184
Net assets released from restrictions used for operations	7,303,354	9,221,163
Total revenues, gains, and other support	550,721,019	505,256,936
Expenses:		
Salaries and benefits	287,904,191	273,811,953
Supplies	53,987,485	54,674,592
Purchased services	50,390,513	46,490,410
Depreciation and amortization	29,974,083	25,414,007
Equipment rental and facility costs	25,651,557	24,405,235
Malpractice and other insurance	20,953,204	16,187,007
Interest	6,025,555	6,435,360
Other	15,543,419	7,182,356
Total expenses	490,430,007	454,600,920
Income from operations before nonoperating activities	60,291,012	50,656,016
Loss on conversion of debt	(119,603)	-
Net unrealized gains on investments	14,124,290	4,336,445
Net payments on swap agreements	(5,490,862)	(5,657,126)
Gain on net change in fair value of swap agreements	22,710,933	6,626,010
Revenues over expenses	91,515,770	55,961,345

(Continued)

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted net assets:		
Revenues over expenses	$ 91,515,770	$ 55,961,345
Net assets released from restrictions used for purchase of property and equipment	445,500	1,632,655
Grant revenue used for purchase of property and equipment	-	478,764
Capital contributions from noncontrolling interest in subsidiary	405,000	-
Reclassification between funds	1,779,734	-
Increase in unrestricted net assets	94,146,004	58,072,764
Temporarily restricted net assets:		
Contributions from the Foundation	12,554,093	954,812
Contributions from others	1,188,975	-
Change in value of charitable remainder trusts held by others	1,176,808	419,742
Net assets released from restrictions used for operations	(7,303,354)	(9,221,163)
Net assets released from restrictions used for property and equipment	(445,500)	(1,632,655)
Change in beneficial interest in Miami Children's Hospital Foundation	176,582	12,036,652
Reclassification between funds	(1,779,734)	-
Increase in temporarily restricted net assets	5,567,870	2,557,388
Permanently restricted net assets:		
Change in beneficial interest in Miami Children's Hospital Foundation	516,187	452,272
Increase in permanently restricted net assets	516,187	452,272
Increase in net assets	100,230,061	61,082,424
Net assets at beginning of year	439,975,549	378,893,125
Net assets at end of year	$ 540,205,610	$ 439,975,549

See Notes to Consolidated Financial Statements.

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Increase in net assets	$ 100,230,061	$ 61,082,424
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in net unrealized gain on investments	(14,124,290)	(4,336,445)
Gain on fair value of swap agreements	(22,710,933)	(6,626,010)
Depreciation and amortization	29,974,083	25,414,007
Provision for doubtful accounts	12,707,280	9,659,424
Change in beneficial interest in Miami Children's Hospital Foundation	(692,769)	(12,488,924)
Change in value of charitable remainder trusts	(1,176,808)	1,640,761
Loss (gain) on disposal of equipment	17,755	(2,669)
Net realized gain on sales of unrestricted investments	(18,168,870)	(15,395,180)
Loss on conversion of debt	119,603	-
Amortization of bond (premium) discount	(137,065)	42,963
Changes in operating assets and liabilities:		
Net increase in patient accounts receivable, other receivables, inventories, prepaid expenses, and other assets	(34,782,335)	(17,696,546)
Net increase (decrease) in third-party settlements payable	590,847	(177,400)
Net increase in accounts payable, accrued expenses, self-insurance, and other long-term liabilities	5,805,998	16,761,395
Net cash provided by operating activities	57,652,557	57,877,800
Cash Flows From Investing Activities		
Purchase of property and equipment	(65,099,718)	(75,422,308)
Purchase of investments	(16,220,729)	(193,047,488)
Proceeds from sales and maturities of investments	41,052,433	192,381,333
Proceeds from sale of equipment	-	12,438
Financing provided to affiliates	(492,977)	-
Net cash used in investing activities	(40,760,991)	(76,076,025)
Cash Flows From Financing Activities		
Proceeds from restructure of bonds payable	107,788,754	-
Repayment of bonds payable due to restructure	(106,300,000)	-
Repayment and redemption of bond payable	(3,625,001)	(3,500,000)
Bond conversion costs	(1,484,827)	-
Repayment of bank loan	(888,000)	(888,000)
Proceeds from sale of noncontrolling interest in subsidiary	405,000	-
Transfers from Miami Children's Hospital Foundation	12,554,093	8,786,652
Net cash provided by financing activities	8,450,019	4,398,652
Net increase (decrease) in cash and cash equivalents	25,341,585	(13,799,573)
Cash and cash equivalents at beginning of year	21,575,974	35,375,547
Cash and cash equivalents at end of year	$ 46,917,559	$ 21,575,974
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest, net of amounts capitalized	$ 9,949,061	$ 6,494,413

See Notes to Consolidated Financial Statements.

Note 1. Organization

The accompanying consolidated financial statements include the consolidated accounts of Variety Children's Hospital, Inc. d/b/a Miami Children's Hospital (the Hospital) and its wholly owned subsidiaries, Miami Children's Hospital Research Institute, Inc. (Research Institute), MCH Pediatric Cardiology, LLC (Cardiology) and Miami Children's Insurance SPC (Limited). The Hospital also has a majority (62.5%) ownership in Canavan Partners, LLP (Canavan), with the remaining 37.5% interest owned by a minority partner. All profits in Canavan have been distributed to the partners annually since the inception of the partnership. The amount earned and paid to the minority partner during 2013 and 2012 was not material. In 2013, the Hospital created Miami Children's Hospital Ambulatory Surgery Center, LLC (MCH ASC). The Hospital plans to own 51% of the Corporation, which will operate an ambulatory surgery center located on the campus of Florida International University. Construction of MCH ASC will begin in early 2014.

In December 2002, the Hospital formed Miami Children's Insurance SPC Limited (Captive Insurance Company) in the Cayman Islands, a wholly owned subsidiary of the Hospital, to access professional liability insurance markets outside the United States of America. All significant intercompany balances and transactions have been eliminated in consolidation.

On September 28, 2011, Miami Children's Health System, Inc. (the System) was incorporated as a holding company for the Hospital and future subsidiaries. In addition, the System will facilitate partnerships with private physicians and enter into joint ventures to access new markets and revenue opportunities. In 2012, the System's organizational framework was developed, and from inception through December 31, 2013, the System and its subsidiaries had minimal financial transactions. In 2012, the Hospital became a wholly owned subsidiary of the System. During 2012, Miami Children's Health Systems Foundation, Inc. (MCHSF) was formed. MCHSF was inactive during 2012 and 2013.

Miami Children's Hospital Foundation, Inc. (the Foundation) is a separate tax-exempt organization whose sole purpose is to raise funds to support the activities of the Hospital. The Hospital does not control the activity of the Foundation and therefore it is not consolidated. The Hospital does recognize a beneficial interest in the net assets of the Foundation (see Note 9).

The Hospital is a pediatric specialty hospital located in Miami-Dade County, Florida. The Hospital is licensed to operate a 289-bed facility consisting of 269 general acute-care beds and 20 psychiatry beds. The Hospital offers a comprehensive range of specialty and subspecialty services in treating pediatric patients. The Hospital owns and operates the Miami Children's Hospital Dan Marino Center in the West Broward County area and the MCH Palmetto Bay Center in Miami-Dade County. The Hospital also operates ambulatory centers in Doral, Miami Lakes, West Kendall, and Midtown Miami in Miami-Dade County, Miramar Center in Broward County and The Nicklaus Center in Palm Beach County. These centers extend pediatric specialty services throughout the South Florida area. The Research Institute performs comprehensive research in the cause, cure, and prevention of childhood diseases.

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues, gains and other support are generally recognized when services are provided. Expenses are recognized when purchases of materials are made or services are rendered.

Note 2. Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of consolidated financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Hospital considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient revenues; valuation of accounts receivable, including contractual allowances and provision for doubtful accounts; reserves for losses and expenses related to health care, professional and general liabilities, and estimated third-party settlements. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ from these estimates.

Cash and cash equivalents: Cash and cash equivalents include investments in highly liquid debt instruments with maturity of three months or less when purchased, excluding amounts whose use is limited.

Accounts receivable for medical services: Accounts receivable for medical services are stated at net realizable value. The Hospital estimates the allowances for uncollectible accounts based on historical write-offs and the aging of the accounts. Accounts are written off when collection efforts have been exhausted.

Concentration of credit risk: The hospital maintains its cash and cash equivalents with several large financial institutions. All accounts at these financial institutions are insured to the limits established by the Federal Deposit Insurance Corporation per bank. The hospital has cash deposits that exceed the federally insured deposited amounts. Management does not anticipate nonperformance by the financial institutions.

The Hospital grants credit without collateral to its patients. The mix of net receivables from patients and third-party payors for the Hospital, which approximated $60,484,000 and $51,015,000 as of December 31, 2013 and 2012, respectively, is as follows:

	2013	2012
Medicare	1%	1%
Medicaid and Medicaid HMO	37%	25%
Managed care	53%	68%
Self-pay and other	9%	6%
	100%	100%

Inventories: Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost (as determined by the average cost method) or market value.

Note 2. Summary of Significant Accounting Policies (Continued)

Investments (including assets limited as to use): Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included within revenues over expenses, unless the income or loss is restricted by donor or law. Unrealized gains and losses are recognized in income from operations for trading securities. The Hospital has elected to treat all of its investments, other than the alternative investments, as trading securities.

Assets limited as to use include investments held by trustees under bond indenture agreements, self-insurance trust arrangements, and assets designated for funded depreciation.

The Hospital has elected the fair value option prescribed by ASC Topic 825-10, *Financial Instruments – Overall*, for investments in investment funds which might otherwise qualify for the cost method or equity method of accounting and ASC Topic 958, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Management of the Hospital believes that presenting these investments at fair value provides for better indication of the Hospital's financial position as of each reporting date. As of December 31, 2013 and 2012, the Hospital recorded approximately $62,800,000 and $57,430,000, respectively, of alternative investment funds at fair value.

Bond issuance costs: Bond issuance costs relating to hospital revenue bonds are amortized to operations over the term of the related financing agreement using the effective-interest method. Amortization of bond issuance costs is included in amortization expense in the accompanying consolidated statements of operations and changes in net assets.

Beneficial interest in Miami Children's Hospital Foundation's net assets: The Hospital recognizes its interest in the net assets of the Foundation and adjusts its interest for its share of the change in net assets of the Foundation in accordance with Accounting Standards Codification (ASC) 958, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*.

The Hospital periodically requests funds from the Foundation for capital or other needs. Such requests are received by the Foundation and, if approved, funds are transferred to the Hospital. Such transfers of funds are reported in the accompanying consolidated statement of operations and change in net assets and included in operations or changes in net assets. The Hospital's beneficial interest in the unrestricted and temporarily restricted net assets of the Foundation and its share of the change in those net assets are reported in the accompanying consolidated financial statements in temporarily restricted net assets. The Hospital's beneficial interest in permanently restricted net assets of the Foundation and its share of changes therein are reported in the accompanying consolidated financial statements in permanently restricted net assets.

Property and equipment: Property and equipment acquisitions are recorded at cost if purchased or fair value if donated. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Depreciation is recorded over the estimated useful life of each class of depreciable asset (which ranges from approximately 10 years to 40 years for buildings and 3 years to 10 years for furniture, fixtures, and equipment), except works of art, which are not depreciated, and is computed using the straight-line method.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. During 2013 and 2012, the Hospital capitalized approximately $1,364,000 and $620,000 of interest expense, respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

Gifts of long-lived assets such as land, buildings, equipment, or works of art are reported at fair value at the date of donation as unrestricted support and are excluded from revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are transferred from restricted to unrestricted when the donated or acquired long-lived assets are placed in service.

Other long-term assets, temporarily restricted: The Hospital is the beneficiary of two irrevocable charitable remainder trusts. Assets, which consist of investment accounts held in the trust's name, are released from donor restrictions by the occurrence of time or events specified by the donor. The Hospital's interests in these charitable remainder trusts are included in other long-term assets recorded at the present value of the fair market value on the accompanying consolidated balance sheets. Changes in the fair value are recorded as changes in temporarily restricted net assets.

Impairment of long-lived assets: The Hospital evaluates long-lived assets regularly for impairment whenever adverse events or changes in circumstances or business climate indicate that expected future cash flows may not be sufficient to support the recorded asset. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. The Hospital has concluded that no significant impairment existed as of December 31, 2013 and 2012.

Self-insurance programs: The Hospital is self-insured or retains a portion of the risk for certain employee health claims, workers' compensation claims, and professional liability claims. The provision for estimated health, professional liabilities, and workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Derivative financial instruments: The Hospital accounts for derivative financial instruments in accordance with FASB ASC 954-815, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*, which requires not-for-profit health care organizations to apply the provisions of ASC 815-10, *Accounting for Derivative Instruments and Hedging Activities*, as amended (including the provisions pertaining to cash flow hedge accounting), in the same manner as for-profit enterprises.

As part of its investment strategy and capital financing plan, the Hospital has entered into interest rate and basis swap transactions. In accordance with ASC 815-10, the swap transactions have been recorded at fair value based on current termination values or quoted market prices of comparable agreements. In addition, the swap transactions involve the periodic exchange of payments between the Hospital and the swap counterparty pursuant to contract terms. The net payments made from these exchanges are reported as net payments on swap agreements in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31, 2013 and 2012.

Note 2. Summary of Significant Accounting Policies (Continued)

ASC 954-815 additionally requires the net change in the fair value of swap agreements not designated as hedging activities to be included within the performance indicator. The Hospital has recorded the change in fair value of the swap agreements within revenues over expenses.

Unrestricted, temporarily restricted, and permanently restricted net assets: Unrestricted net assets represent resources generated from operations, proceeds of debt issuance, unrestricted donations, and lapse of temporary restrictions that are no longer subject to donor-imposed stipulations.

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. Generally, the donor of these assets permits the Hospital to use all or part of the income earned on related investments for general or specific purposes.

Net patient service revenue: The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others when the services are rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period that the related services are rendered and adjusted in future periods as final settlements are determined. Management believes these final settlements will not materially impact the consolidated financial statements.

Grants and contracts: Reciprocal grants and contracts revenue is recognized when the expenses have been incurred for the purpose specified by the grantor or in accordance with the terms of the agreement. Payments received in advance are reported as temporarily restricted net assets. Grant and contract amounts due to the Hospital are included in other receivables.

Charity care: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the charges for services and supplies furnished under its charity care policy. Adjustments for free care are recorded at the time services are provided. The cost of providing charity care is based on the ratio of cost to gross charges, and during the years ended December 31, 2013 and 2012, was approximately $605,000 and $2,244,000 respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

Donor contributions: Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is met. The contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributed services: A substantial number of unpaid volunteers have made significant contributions of their time, principally in patient service programs and in the operation of a gift shop. The value of this contributed time is not reflected in these consolidated financial statements since it is not susceptible to objective measurement or valuation and the equivalent of an employer/employee relationship does not exist.

Revenues over expenses: The accompanying consolidated statements of operations and changes in net assets include the revenues over expenses as the Hospital's performance indicator. Changes in unrestricted net assets that are excluded from revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets), grant revenue used for purchase of property and equipment and capital contributions from noncontrolling interest in subsidiary.

Income taxes: The Hospital and certain of its affiliated organizations qualify as tax-exempt, nonprofit organizations under Section 501(c)(3) of the Internal Revenue Code (the Code). The Hospital and the Research Institute are exempt from federal income tax on related income pursuant to Section 501(a) of the Code as described in Section 501(c)(3). These tax-exempt entities had no tax provision for the years ended December 31, 2013 and 2012. The Captive Insurance Company is not subject to income taxes, as no income taxes are levied in the Cayman Islands. The Hospital believes there is no uncertain tax liability which should be recorded as of December 31, 2013 and 2012.

The American Recovery and Reinvestment Act Electronic Health Record Grant: In 2012 the Hospital applied for and received approximately $4,900,000 in incentive payments for meaningful use of electronic health records from the State of Florida. The Hospital completed the registration process for the Medicaid EHR incentive program, which included all necessary attestations for both the hospital and employed physicians. The Hospital received $2,700,000 for year two payment from the Medicaid EHR incentive program in 2013. The EHR funds earned are included in grant and other revenue. The Hospital's compliance with the meaningful use criteria is subject to audit by the government.

Reclassifications: Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the presentation in the 2013 consolidated financial statements. These reclassifications did not impact net assets or the increase in net assets previously reported.

Note 3. Investments and Assets Limited as to Use

The composition of assets limited as to use and investments as of December 31, 2013 and 2012 is set forth in the following table:

	2013	2012
Assets limited as to use:		
Under self-insured funding:		
Malpractice funding arrangements:		
Cash and cash equivalents	$ 1,152,567	$ 1,437,074
U.S. Treasury and agency obligations	13,070,217	9,237,259
Corporate debt securities	23,653,417	25,544,374
Equity securities	9,233,699	6,919,595
Workers' compensation funding arrangement:		
Cash and cash equivalents	59,103	38,275
U.S. Treasury and agency obligations	749,834	695,942
Corporate debt securities and other	1,435,226	1,515,221
	49,354,063	45,387,740
Less current portion of assets limited as to use	(13,276,892)	(7,366,049)
	36,077,171	38,021,691
Designated for funded depreciation:		
Certificate of deposit	252,294	252,881
U.S. Treasury and agency obligations	-	15,212,490
Corporate debt securities	69,685,148	75,423,373
Equity securities	103,167,110	86,420,027
Equity mutual funds	7,037,779	5,571,662
Alternative investments:		
International Equity Fund	8,071,295	12,521,040
Global Long/Short Fund	15,042,276	8,289,577
Private Markets Fund	9,576,963	5,233,920
Private Equity Offshore Fund	6,312,867	11,685,756
Strategic Commodities Fund	10,791,895	6,998,270
Global Tactical Trading Fund	13,005,491	12,701,463
	242,943,118	240,310,459
Under bond indenture agreements:		
Cash and cash equivalents	51,112,178	58,569,036
Restricted investments:		
U.S. Treasury and agency obligations	3,745,597	8,845,034
Total assets limited as to use, net of current portion	$ 333,878,064	$ 345,746,220
Investments:		
Fixed income mutual funds	$ 13,654,304	$ -
Corporate debt securities	671,684	-
U.S. Treasury and agency obligations	35,432,119	35,895,550
Investments	$ 49,758,107	$ 35,895,550

Note 3. Investments and Assets Limited as to Use (Continued)

The Hospital had approximately $63 million and $57 million of investments in alternative investment funds that are reported at fair value in 2013 and 2012, respectively. The investment objective of the alternative investment funds is to provide diversification of risk as measured by volatility of returns. These types of investments generally tend to be illiquid and longer-term in nature, with return patterns that maintain low correlations to traditional investment options. The Hospital has concluded that the net asset value reported by the underlying funds approximates the fair value of the investment. These investments are redeemable with the fund at net asset value under the terms of the respective agreements and are restricted to withdrawal. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds, and, consequently, the fair value of the Hospital's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Hospital's interest in the funds.

Investment income and gains on assets limited as to use, cash equivalents, and other investments comprise the following for the years ended December 31, 2013 and 2012:

	2013	2012
Investment income	$ 7,361,672	$ 6,554,004
Net realized gains	10,807,198	15,395,180
	18,168,870	21,949,184
Net unrealized gains on trading investments	14,124,290	4,336,445
	$ 32,293,160	$ 26,285,629

Note 4. Property and Equipment

A summary of property and equipment as of December 31, 2013 and 2012 is as follows:

	2013	2012
Land and improvements	$ 7,166,029	$ 6,706,872
Buildings and improvements	295,824,406	266,537,179
Furniture, fixtures, and equipment	243,235,962	227,474,331
	546,226,397	500,718,382
Less accumulated depreciation and amortization	(283,296,862)	(254,042,530)
	262,929,535	246,675,852
Construction in progress	66,059,097	47,069,299
	$ 328,988,632	$ 293,745,151

Depreciation expense for the years ended December 31, 2013 and 2012 amounted to approximately $28,767,000 and $25,265,000, respectively. Construction in progress as of December 31, 2013 is focused on two major construction projects: the emergency department expansion and construction of the advanced pediatric care pavilion, which are expected to be completed in 2014 and 2015, respectively.

Note 5. Note Payable

The Hospital executed a $4.4 million five-year unsecured bank loan on December 9, 2011, in connection with the purchase of a building in Northwest Miami-Dade County to establish a new ambulatory care center. Monthly principal and interest payments on the note are approximately $78,000. Interest on the note is at a rate of 2.1%.

The note payable balance as of December 31, 2013 is as follows:

Note payable	$ 2,664,000
Less current portion	(888,000)
Long-term portion	$ 1,776,000

Scheduled note payments, including interest, are as follows:

Year Ending December 31,	
2014	$ 936,045
2015	917,138
2016	898,274
Total minimum note payments	2,751,457
Less interest on note payable	(87,457)
	$ 2,664,000

Note 6. Bonds Payable

A summary of bonds payable as of December 31, 2013 and 2012 is as follows:

	2013	2012
Tax-exempt revenue refunding bonds:		
2013 fixed rate bond with principal maturing from 2014 to 2042 with interest rates between 2.0% and 5.25%	**$ 105,445,000**	$ -
2011 fixed rate bond with principal maturing from 2042 to 2046, with interest rates between 5.875% and 6.0%	**25,550,000**	25,550,000
2010A fixed rate bond with principal maturing from 2013 to 2042, with interest rates between 4.00% and 6.125%	**41,300,000**	41,880,000
2010B variable rate bank loan with principal maturity from 2013 to 2041 (fiscal year 2013 average interest rate of 1.24%)	**63,650,000**	64,095,000
2006A fixed rate put bond with principal maturing on August 1, 2013, with an interest rate of 4.55%	**-**	30,000,000
2006B-1 variable rate demand obligation with principal maturing from 2013 to 2034 (fiscal year 2012 average interest rate of 0.87%)	**-**	39,450,000
2006B-2 variable rate demand obligation with principal maturing from 2013 to 2034 (fiscal year 2012 average interest rate of 0.87%)	**-**	39,450,000
	235,945,000	240,425,000
Less: current portion of bonds payable	**(2,050,000)**	(33,625,000)
Net bond premium (discount)	**1,030,193**	(1,176,495)
Long-term portion of bonds payable	**$ 234,925,193**	$ 205,623,505

Scheduled principal repayments on bonds payable are as follows:

Year Ending December 31,	
2014	$ 2,050,000
2015	3,080,000
2016	3,210,000
2017	4,170,000
2018	4,365,000
Thereafter	219,070,000
	$ 235,945,000

Note 6. Notes Payable (Continued)

In December 2006, the Dade County Health Facilities Authority issued Hospital Revenue Bond Series 2006A and Hospital Revenue and Revenue Refunding Bonds, Series 2006B in the amount of $264,475,000. The proceeds provided funds to advance refund the outstanding Series 2001 Revenue Bonds of $145,972,000, which were defeased, pay certain expenses incurred in connection with the issuance of the Series 2006A and Series 2006B bonds, and support a major facility upgrade and expansion project on the main campus. The underlying Series 2006A and Series 2006B bonds were auction rate securities with an interest rate that varied on a weekly basis at auction rates. In December 2006, the Hospital also issued a fixed-payer interest rate swap for $209.5 million, with an interest rate of 3.384%.

On April 16, 2008, $55.0 million of the auction rate securities were converted to three- and five-year put bonds, and on May 1, 2008, the remaining $206.0 million was converted to a variable rate demand obligation (VRDOs).

During December 2010, the Hospital issued fixed rate bonds (Series 2010A) with a par amount of $44 million to redeem the outstanding Series 2006 B-3 VRDO bonds ($42 million) and a $65 million bank loan (Series 2010B) to finance the bed tower project. On August 1, 2011, the Hospital refunded and reissued a $25.5 million bond.

On August 1, 2013, the hospital issued Series 2013 Bonds with a par amount of $105.4 million in order to refinance Series 2006A ($30 million 4.55% fixed rate 5 year put bonds maturing August 1, 2013), and Series 2006B-1 and B-2 ($76.3 million VRDO) after having paid principal of $2.6 million, $580 thousand, and $445 thousand for Series 2006 B-1/B-2, 2010A, and 2010B, respectively. The Series 2013 Bonds cost of issuance was $1.5 million and there was a one-time write off of issuance costs from the refinancing of Series 2006B-1 and B-2 bonds in the amount of $119,603. The Hospital's bonds payable are collateralized by the gross receipts and accounts receivable generated from the Hospital's operations, as well as substantially all of the Hospital's property and equipment.

Those bonds contain certain restrictive covenants, including minimum debt service ratio, days cash on hand, and capitalization ratio requirements.

Note 7. Swap Agreements

In 2002, the Hospital entered into four $75.0 million basis-rate swap agreements consistent with its investment strategy and capital financing plan. The basis-rate swap transactions mature in 2022.

In December 2006 and in conjunction with the Series 2006A and 2006B bonds, the Hospital entered into an interest rate swap agreement with a notional amount of $209.5 million.

On April 5, 2012, the Hospital entered into a swap novation agreement, whereby Wells Fargo replaced Citibank as the counterparty on the basis and interest rate swaps. The agreement also increased the collateral threshold for all swap agreements based on the Hospital's current credit rating and reduced the interest rate contract to $192.2 million (with annual reductions ranging from $3.8 million to $4.175 million).

Note 7. Swap Agreements (Continued)

Swap transactions in effect at December 31, 2013 are summarized as follows:

Swap Agreements					
Trade Date	Scheduled Actual Termination Date	Contract Amount (In Millions)	Type of Swap Contract	Cost to Terminate 2013	Cost to Terminate 2012
January 4, 2002	January 8, 2022	75.0	Basis	$ 1,022,939	$ 1,071,868
January 10, 2002	January 14, 2022	75.0	Basis	940,673	1,012,241
April 16, 2002	April 18, 2022	75.0	Basis	1,025,219	1,090,425
May 6, 2002	May 8, 2022	75.0	Basis	1,005,705	1,082,557
December 1, 2006	August 1, 2042	184.5	Interest rate	21,423,563	43,871,941
				$ 25,418,099	$ 48,129,032

The fair value of swap transactions based on current termination values or quoted market prices of comparable agreements, are recorded as a liability on the accompanying consolidated balance sheets. As of December 31, 2013 and 2012, the cost to terminate the swap transactions was approximately $25,418,000 and $48,129,000 respectively. As described in Note 2, the change in the fair value of the swap agreements has been recorded within revenues over expenses for the years ended December 31, 2013 and 2012. The Hospital has recognized gains of approximately $22,711,000 and $6,626,000 in the net change in the fair value of swap agreements for the years ended December 31, 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, the Hospital recognized in the accompanying consolidated statements of operations and net assets approximately $5,491,000 and $5,657,000 respectively, related to the net payments made to the swap counterparty in excess of payments received by the Hospital.

The swap agreements have certain restrictive covenants with the Hospital's counterparties. Among other things, the covenants require the Hospital to maintain certain levels of cash or other collateral if the fair value of recorded swap liabilities exceeds certain dollar thresholds. Collateral is required when the fair value to terminate the basis swap transactions exceeds $45 million pursuant to the Hospital's A rating by both Fitch and Standard & Poors. At December 31, 2013, collateral is not required since the swap fair value is well under the $45 million collateral threshold.

Note 8. Self-Insurance Programs

Medical Malpractice Insurance

In December 2002, the Hospital formed the Miami Children's Insurance SPC, Ltd. in the Cayman Islands, a wholly owned subsidiary of the Hospital, to access professional liability insurance markets outside the United States of America. The Hospital's medical malpractice insurance after December 2002 includes a self-insured retention for the first $5.0 million for each medical malpractice claim. During March 2011, the self-insured retention was reduced from $5.0 million to $3.0 million for each medical malpractice claim. The Hospital purchases excess medical malpractice insurance from domestic and international commercial insurance carriers above the retention levels. The policies provide malpractice insurance coverage under claims-made policies. Based on historical experience and current actuarial analyses, management believes that the established reserves are sufficient to cover reported claims and incurred but not reported claims. The Hospital has recorded approximately $10,325,000 and $12,141,000 for 2013 and 2012 respectively, of estimated insurance recoveries which is included in other long-term assets on the accompanying consolidated balance sheets.

Note 8. Self-Insurance Programs (Continued)

The Hospital utilizes a third-party actuary to assist in determining the liability. The actuary estimates the reserve using a mix of industry experience and the actual malpractice loss experience of the Hospital as reported under the Hospital's risk management system. In the opinion of management, adequate provision has been made for estimated losses from asserted and unasserted claims. The Hospital funds the liability for the retentions and deductibles and estimated cost of claims and incidents incurred but not reported under its claims-made coverages. The Hospital maintains, through its investment program, investments held by trustee under malpractice funding arrangements (see Note 3).

Workers' Compensation Insurance

The Hospital maintains a workers' compensation self-insurance trust program, which provides for the estimated deductibles and cost of claims and incidents incurred but not reported. The costs of such claims are paid by the Hospital; however, the Hospital has commercial insurance coverage on a per-occurrence basis in excess of $500,000 for fiscal year 2013, with no aggregate limit. The Hospital utilizes a third-party actuary in determining the liability. The Hospital has accrued for the future payment of known workers' compensation claims, as well as an estimate for incurred but not yet reported claims.

Under a workers' compensation trust agreement, the Hospital funds the liability through its investment program, which is classified as assets limited as to use (see Note 3).

Health Insurance

The Hospital maintains a self-insurance employee health plan. Under the self-insured plan, all claims from employees and their dependents, less deductibles and coinsurance, as provided in the plan, are paid directly by the Hospital, using a third party administer.

The Hospital has commercial insurance coverage for claims exceeding a per-member claim limit and aggregate claims in excess of the self-insurance limits. The Hospital records liabilities for outstanding and estimated unreported claims of its employees covered under this plan in accounts payable and accrued expenses in the accompanying consolidated balance sheets. The Hospital has accrued for incurred by not reported claims.

Liabilities for self-insurance comprise of the following for the years ended December 31, 2013 and 2012:

	2013	2012
Medical malpractice insurance	$ 57,732,895	$ 55,445,922
Workers compensation insurance	2,236,015	2,569,057
Health insurance	2,559,468	3,065,744
	62,528,378	61,080,723
Current portion	(13,276,892)	(7,366,049)
	$ 49,251,486	$ 53,714,674

Note 9. Miami Children's Hospital Foundation, Inc.

The Foundation was established with its sole and only purpose to acquire funds to support the health care programs and activities of the Hospital.

The Hospital's beneficial interest in the net assets of the Foundation at December 31, 2013 and 2012 is included in temporarily and permanently restricted net assets on the accompanying consolidated balance sheets. The beneficial interest in Foundation assets is restricted because the Hospital does not have control of the Foundation, its assets, timing, and nature of contributions to the Hospital. Funds are transferred from the Foundation to the Hospital only after a review of the funding request submitted by the Hospital and approval of the request by the Foundation's Board of Trustees.

A summary of the Foundation's financial position, results of operations, and changes in net assets as of and for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Assets:		
Cash and cash equivalents	$ 11,825,230	$ 11,878,551
Investment securities	61,192,151	64,234,331
Inventory	2,557,804	-
Pledges receivable, net	8,783,763	7,384,966
Fixed assets, net	138,196	192,944
Other current assets	588,396	717,934
Total assets	$ 85,085,540	$ 84,408,726
Liabilities	3,273,543	3,289,498
Net assets:		
Unrestricted	33,613,446	36,788,002
Temporarily restricted	18,032,766	14,681,628
Total unrestricted and temporarily restricted net assets	51,646,212	51,469,630
Permanently restricted	30,165,785	29,649,598
Net assets	81,811,997	81,119,228
Total liabilities and net assets	$ 85,085,540	$ 84,408,726

	2013	2012
Contributions	$ 15,513,074	$ 12,097,203
Other revenue, primarily investment income	2,654,006	881,677
Operating expenses	(7,478,893)	(6,286,018)
Grants to Hospital	(13,247,310)	(8,786,652)
Other Hospital supported grants	(181,171)	(187,641)
(Deficit) excess of contributions and other revenue over expenses	(2,740,294)	(2,281,431)
Change in unrealized gains on investments	3,433,063	5,983,703
Increase in net assets	692,769	3,702,272
Net assets at beginning of year	81,119,228	77,416,956
Net assets at end of year	$ 81,811,997	$ 81,119,228

Total Foundation contributions to the Hospital for the years ended December 31, 2013 and 2012, were approximately $13,428,000 and $8,974,000, respectively, and included in operations or changes in net assets.

Note 10. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are restricted for the following purposes or periods at December 31, 2013 and 2012:

	2013	2012
Temporarily restricted:		
Irrevocable charitable remainder trusts	$ 6,787,949	$ 7,671,645
Restricted primarily for research, indigent care, and education	3,745,597	5,481,490
Restricted for Capital – Projects in Process	8,010,877	-
Beneficial interest in Miami Children's Hospital Foundation	51,646,212	51,469,630
	70,190,635	64,622,765
Permanently restricted:		
Beneficial interest in Miami Children's Hospital Foundation	30,165,785	29,649,598
	$ 100,356,420	$ 94,272,363

For the years ended December 31, 2013 and 2012, net assets were released from donor restrictions by satisfying the time restriction or incurring operating expenses satisfying the restricted purposes in the amounts of approximately $7,303,000 and $9,221,000 respectively.

Permanently restricted net assets held by the Foundation are reported at fair value and are restricted to investment and reinvestment in perpetuity, the income from which is expendable to support various programs sponsored by the Hospital.

Note 11. Fair Value Measurements

The Hospital follows ASC 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring the fair value of certain assets and liabilities and disclosures about fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by ASC 820 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Fair value is determined by using quoted prices for identical assets or liabilities in active markets.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 2 investments also include alternative investments, measured using the practical expedient, that do not have any significant redemption restrictions, lock up periods, gates or other characteristics that would cause liquidation and report date NAV to be significantly different, if redemption were requested at report date.

Level 3 – These investments are measured using the practical expedient and would have significant redemption and other restrictions that would limit the Hospital's ability to redeem out of the fund at report date NAV. Level 3 investments also include beneficial interests in the Foundation.

Note 11. Fair Value Measurements (Continued)

The table below summarizes the Hospital's significant financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2013:

		Fair Value Measurements at Reporting Date Using		
	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets limited as to use:				
Under self-insured funding:				
Malpractice funding arrangements:				
Cash and cash equivalents	$ 1,152,567	$ 1,152,567	$ -	$ -
U.S. Treasury and agency obligations	13,070,217	-	13,070,217	-
Corporate debt securities	23,653,417	-	23,653,417	-
Equity securities	9,233,699	9,233,699	-	-
Workers' compensation funding arrangement:				
Cash and cash equivalents	59,103	59,103	-	-
U.S. Treasury and agency obligations	749,834	-	749,834	-
Corporate debt securities and other	1,435,226	-	1,435,226	-
Designated for funded depreciation:				
Certificate of deposit	252,294	252,294	-	-
Corporate debt securities	69,685,148	-	69,685,148	-
Equity securities	103,167,110	103,167,110	-	-
Equity mutual funds	7,037,779	7,037,779	-	-
Alternative investments				
International Equity Fund	8,071,295	-	8,071,295	-
Global Long/Short Fund	15,042,276	-	-	15,042,276
Private Markets Fund	9,576,963	-	-	9,576,963
Private Equity Offshore Fund	6,312,867	-	-	6,312,867
Strategic Commodities Fund	10,791,895	-	-	10,791,895
Global Tactical Trading Fund	13,005,491	-	-	13,005,491
Under bond indenture agreements:				
Cash and cash equivalents	51,112,178	51,112,178	-	-
Restricted investments:				
Cash and cash equivalents	3,745,597	3,745,597	-	-
Other Investments:				
U.S. Treasury and agency obligations	35,432,120	-	35,432,120	-
Fixed income mutual funds	13,654,303	13,654,303	-	-
Corporate debt securities	671,684	-	671,684	-
Investments and assets limited as to use	$ 396,913,063	$ 189,414,630	$ 152,768,941	$ 54,729,492
Beneficial interest in charitable remainder trusts	$ 6,787,949	$ -	$ -	$ 6,787,949
Beneficial interest in foundation	81,811,997	-	-	81,811,997
Liabilities:				
Interest rate and basis swaps	$ 25,418,099	$ -	$ 25,418,099	$ -

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Notes to Consolidated Financial Statements

Note 11. Fair Value Measurements (Continued)

The table below summarizes the Hospital's significant financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2012:

		Fair Value Measurements at Reporting Date Using		
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets limited as to use:				
Under self-insured funding:				
Malpractice funding arrangements:				
Cash and cash equivalents	$ 1,437,074	$ 1,437,074	$ -	$ -
U.S. Treasury and agency obligations	9,237,259	-	9,237,259	-
Corporate debt securities	25,544,374	-	25,544,374	-
Equity securities	6,919,595	6,919,595	-	-
Workers' compensation funding arrangement:				
Cash and cash equivalents	38,275	38,275	-	-
U.S. Treasury and agency obligations	695,942	-	695,942	-
Corporate debt securities and other	1,515,221	-	1,515,221	-
Designated for funded depreciation:				
Certificate of deposit	252,881	252,881	-	-
U.S. Treasury and agency obligations	15,212,490	-	15,212,490	-
Corporate debt securities	75,423,373	-	75,423,373	-
Equity securities	86,420,027	86,420,027	-	-
Equity mutual funds	5,571,662	5,571,662	-	-
Alternative investments				
International Equity Fund	6,998,270	-	6,998,270	-
Global Long/Short Fund	12,521,040	-	-	12,521,040
Private Markets Fund	8,289,577	-	-	8,289,577
Private Equity Offshore Fund	5,233,920	-	-	5,233,920
Strategic Commodities Fund	11,685,756	-	-	11,685,756
Global Tactical Trading Fund	12,701,463	-	-	12,701,463
Under bond indenture agreements:				
Cash and cash equivalents	58,569,036	58,569,036	-	-
Restricted investments:				
Cash and cash equivalents	8,845,034	8,845,034	-	-
Other investments:				
U.S. Treasury and agency obligations	35,895,550	-	35,895,550	-
Fixed income mutual funds	8,135,911	8,135,911	-	-
Investments and assets limited as to use	$ 397,143,730	$ 176,189,495	$ 170,522,479	$ 50,431,756
Beneficial interest in charitable remainder trusts	$ 7,671,645	$ -	$ -	$ 7,671,645
Beneficial interest in foundation	81,119,228	-	-	81,119,228
Liabilities:				
Interest rate and basis swaps	$ 48,129,032	$ -	$ 48,129,032	$ -

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Notes to Consolidated Financial Statements

Note 11. Fair Value Measurements (Continued)

The Hospital is permitted to measure the fair value of investments in investment funds that do not have a readily available fair value based on the net asset value (NAV), or its equivalent, such as ownership interest in partners' capital or members capital of the investment as of the reporting date as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. In using the NAV as a practical expedient, certain attributes of the investment that may affect the fair value of the investment are not considered in measuring fair value. Attributes of those investments include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments, and the investment strategies of the investees. The Hospital has invested in investment funds that do not have a readily determinable fair value and, as such, has elected to use the NAV as the practical expedient given it does not have the intent to sell these investments at an amount less than NAV.

The table below summarizes the changes in Level 3 assets for the years ended December 31, 2013 and 2012:

2013	Global Long/Short Fund	Private Markets Fund	Private Equity Offshore Fund	Strategic Commodities Fund	Global Tactical Trading Fund	Beneficial Interest in Foundation	Beneficial Interest in Charitable Remainder Trusts	Total
Beginning balance	$ 12,521,040	$ 8,289,577	$ 5,233,920	$ 11,685,756	$ 12,701,463	$ 81,119,228	$ 7,671,645	$ 139,222,629
Total unrealized gains (losses)	2,521,236	1,267,903	841,894	(893,861)	304,028	692,769	(883,696)	3,850,273
Purchases	-	19,482	237,053	-	-	-	-	256,535
Ending balance	$ 15,042,276	$ 9,576,962	$ 6,312,867	$ 10,791,895	$ 13,005,491	$ 81,811,997	$ 6,787,949	$ 143,329,437

2012	Archstone Offshore Fund	Global Long/Short Fund	Private Markets Fund	Private Equity Offshore Fund	Strategic Commodities Fund	Global Tactical Trading Fund	Beneficial Interest in Foundation	Beneficial Interest in Charitable Remainder Trusts	Total
Beginning balance	$ 14,043,116	$ 10,008,482	$ 7,007,076	$ 3,680,312	$ 11,737,831	$ -	$ 77,416,956	$ 7,251,903	$ 117,102,560
Transfers to Level II	(14,043,116)	-	-	-	-	-		-	-
Total net realized and unrealized gain (losses)	-	(2,039,387)	853,383	377,871	(52,075)	331,343	3,702,272	419,742	3,593,149
Sales	-	(7,850,000)	-	-	-	-	-	-	(7,850,000)
Purchases	-	12,401,945	429,118	1,175,737	-	12,370,120	-	-	26,376,920
Ending balance	$ -	$ 12,521,040	$ 8,289,577	$ 5,233,920	$ 11,685,756	$ 12,701,463	$ 81,119,228	$ 7,671,645	$ 139,222,629

Note 11. Fair Value Measurements (Continued)

The fair values of the following investments have been estimated using the net asset value per share of the investments as of December 31, 2013:

		Fair Value	Remaining Commitments	Frequency	Period
Actively managed:					
International Equity Fund (1)		$ 8,071,295	N/A	Monthly	30 days
	Level II	$ 8,071,295			
Global Long/Short Fund (2)		$ 15,042,276	N/A	Monthly or Qtrly	
Private Markets Fund (3)		9,576,962	$ 1,609,000	(7)	(7)
Private Equity Offshore Fund (4)		6,312,867	$ 4,117,000	(7)	(7)
Strategic Commodities Fund (5)		10,791,895	N/A	Monthly	5 days
Global Tactical Trading Fund (6)		13,005,491	N/A	Quarterly	62 days
	Level III	$ 54,729,491			

The fair values of the following investments have been estimated using the net asset value per share of the investments as of December 31, 2012:

		Fair Value	Remaining Commitments	Frequency	Period
Actively managed:					
International Equity Fund (1)		$ 6,988,270	N/A	Monthly	30 days
	Level II	$ 6,988,270			
Global Long/Short Fund (2)		$ 12,521,040	N/A	Monthly or Qtrly	
Private Markets Fund (3)		8,289,577	$ 2,899,595	(7)	(7)
Private Equity Offshore Fund (4)		5,233,920	$ 10,000,000	(7)	(7)
Strategic Commodities Fund (5)		11,685,756	N/A	Monthly	5 days
Global Tactical Trading Fund (6)		12,701,463	N/A	Quarterly	62 days
	Level III	$ 50,431,756			

1) While the principal investment medium will be in equity securities of foreign issuers generally expecting to invest in 55-70 foreign companies, it may periodically invest when appropriate in equity and debt securities of all types. Also, it may invest in developing countries. The goal is to own promising companies with sound business fundamentals at a time when their intrinsic value is not fully recognized by the marketplace. The Fund's philosophy defines intrinsic value gap candidates in three categories: Basic Value, Consistent Earners, and Emerging Franchises. Basic Value refers to stocks of financially sound companies with well-established businesses that are selling at low valuations relative to the company's net assets or potential earning power. Consistent Earners are growing companies with steady earnings and dividend growth that are selling at attractive values and are priced below historical norms. Emerging Franchises are value-priced emerging companies in the process of establishing a leading position in a product, service or market that is expected to grow at an above average rate.

2) The Fund is an actively managed global long/short equity fund seeking equity-like returns with lower volatility than traditional global equity investments. The portfolio is 100% invested through managed accounts.

Note 11. Fair Value Measurements (Continued)

3) The Fund emphasizes private equity, while also looking to buyouts, venture capital, special situations, distressed securities and other non-traditional categories where the risk adjusted returns or diversification benefits from such categories may be compelling.

4) The Fund invests in the following private equity industry sectors: Buyout, Venture Capital, and Special Situations. The Buyout Sector is further divided into three classes: Diversified Buyout, US Middle Market Buyout, and Europe and Rest of World Buyout. The Special Situations Sector is further divided into two classes: Diversified Special Situations and Distressed. Each investor may allocate its commitment to any or all three of these Sectors, and to any or all Buyout Classes and Special Situation Classes.

5) The Fund was organized for the purpose of trading and investing in securities and derivative contracts. The Fund operates pursuant to an exemption from the United States Commodity Futures Trading Commission (CFTC) in connection with pools whose participants are limited to qualified eligible persons.

6) The Fund invests in the tactical trading sector by following directional trading strategies that generally fall into one of the following two categories: managed futures and global macro strategies. Managed futures strategies involve trading the global futures and currencies markets, generally using quantitative or discretionary approaches. Global macro strategies generally utilize analysis of macroeconomic, geopolitical, and financial conditions to develop views on country, regional or broader economic themes and then seek to capitalize on such views by trading in securities, commodities, interest rates, currencies and other investments. Other strategies may be employed as well.

7) Upon termination of the fund which is estimated to be 2024.

Estimates of fair values are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates.

The carrying values of accounts receivable, accounts payable, and accrued expenses are reasonable estimates of their fair value due to the short-term nature of these financial instruments. Fair values of the Hospital's debt are based upon the quoted market prices for the same or similar issues or on the current rates offered to the Hospital for debt and capital lease obligations of the same remaining maturities. Carrying value of the long-term bonds payable is less than fair value by approximately $7,328,000 and $9,885,000 as of December 31, 2013 and 2012, respectively.

Note 12. Commitments and Contingencies

Line of Credit

The Hospital has an unsecured line of credit agreement with a bank in the amount of $50 million. Borrowings on the line accrue interest at a fluctuating annual rate of .45% plus the daily one month London Inter Bank Offered Rate (LIBOR) rate in effect, or at a fixed annual rate determined by the Bank to be .45% above LIBOR in effect on the first day of the applicable LIBOR period. The agreement was signed as of December 31, 2013, expiring on December 31, 2014 unless extended. At December 31, 2013, the Hospital had no borrowings on the line of credit.

Note 12. Commitments and Contingencies (Continued)

Operating Leases

The Hospital has entered into certain operating lease arrangements, primarily for real property leases for office space. Certain of these leases included stated escalation clauses, while others contain renewal options. Future minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2013 are as follows:

Year Ending December 31,	
2014	$ 5,597,322
2015	5,251,453
2016	5,258,953
2017	5,135,041
2018	5,036,505
Thereafter	27,676,574
	$ 53,955,848

Rent expense for the years ended 2013 and 2012 was approximately $6,540,000 and $5,546,000, respectively. On January 22, 2014 the Hospital entered into an operating lease for office space. This lease, which replaces two leases which are set to expire during fiscal year 2014, relocates employees to a central corporate office location and provides space for additional growth. The initial term of the lease is 180 months and contains stated escalation clauses. Occupancy is expected to begin during September 2014.

Litigation

Several claims and lawsuits (other than medical malpractice and workers' compensation) are pending against the Hospital relating to various matters. The claims management of such matters as well as pending litigation is associated with the course of doing business. Management believes the outcome of such actions will not have a material effect on the Hospital's consolidated financial statements.

Property and Casualty Insurance

The Hospital maintains insurance coverage (including one or more self-insurance or shared or pooled-insurance programs) to protect it and its property. Management believes that the current coverage limits provide reasonable coverage under the circumstances to protect the property of the Hospital. Nevertheless, should losses exceed insurance coverage, it could have a material adverse effect on the financial condition of the Hospital. Moreover, the Hospital is unable to predict the cost or availability of any such property and casualty insurance when its current coverage expires.

Note 13. Net Patient Service Revenue

The Hospital has entered into payment arrangements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors includes:

- *Medicaid.* The Hospital participates in the State of Florida Medicaid Program (Medicaid), and approximately 68% and 66% of the Hospital's 2013 and 2012, respectively, gross patient service revenue was from services to Medicaid beneficiaries. For 2012 and the first six months of 2013, inpatient and outpatient services rendered to Medicaid program beneficiaries were reimbursed under a cost-reimbursement methodology pursuant to the State of Florida Reimbursement Plan. Under this program, the Hospital is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. Beginning July 1, 2013, the State of Florida implemented a new inpatient prospective payment method utilizing Diagnosis-Related Groups (DRGs) whereby the Hospital is generally paid a fixed amount per admission, unless an outlier threshold is surpassed.

- *Managed Care (Health Maintenance Organizations and Preferred Provider Organizations).* Payment agreements include discounts on established charges and prospectively determined per diem rates.

Net patient service revenue consists of the following:

	2013	2012
Gross patient service revenue – at established rates	$1,767,950,540	$1,598,788,842
Third-party contractual revenue adjustments	(1,260,869,139)	(1,141,997,130)
Net patient service revenue before bad debts	507,081,401	456,791,712
Provision for bad debts	(12,707,280)	(9,659,424)
Net patient service revenue	$ 494,374,121	$ 447,132,288

Gross patient service revenue is recorded on the accrual basis in the period in which services are provided at established rates. Contractual adjustments are recorded as deductions from gross patient service revenue to determine net patient service revenue.

Patient service revenue, net of contractual allowances and discounts and before the provision for bad debts, recognized in the period from major payor sources for the years ended December 31, 2013 and 2012, is as follows:

	2013	2012
Third-party payors	97.9%	98.6%
Self-pay patients	2.1%	1.4%
	100.0%	100.0%

Note 13. Net Patient Service Revenue (Continued)

The following summarizes the activity in the Hospital's allowance for bad debts for the years ended:

	2013	2012
Balance at beginning of year	$ 6,525,502	$ 8,790,433
Provision during the year	12,707,280	9,659,424
Accounts written off, net of recoveries	(11,049,924)	(11,924,355)
Balance at end of year	$ 8,182,858	$ 6,525,502

The Hospital's estimation of the allowance for bad debts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of the Hospital's collection efforts.

Note 14. Functional Expenses

The Hospital provides general health care services to pediatric patients principally from within the South Florida area. Expenses related to providing these services are as follows:

	2013	2012
Health care services	$ 387,523,560	$ 363,743,155
General and administrative	96,880,892	84,422,405
Interest expense	6,025,555	6,435,360
	$ 490,430,007	$ 454,600,920

Note 15. Pension Plan

The Hospital maintains a defined contribution IRS section 403(b) pension plan established for the purpose of providing retirement benefits for eligible employees who have completed 12 consecutive months of service, during which they have worked at least 1,000 hours per year. Prior to January 1, 2012, contributions were made to the plan based on 5.75% of covered wages. After January 1, 2012, the Hospital adopted a 3% matching plan and a 3% employer contribution plan. Pension expense, including matching and nonmatching contributions, for the years ended December 31, 2013 and 2012, was approximately $8,915,000 and $7,710,000 respectively, and is included in salaries and benefits within the consolidated statements of operations and changes in net assets.

Note 16. Subsequent Events

The Hospital evaluated events and transactions occurring subsequent to December 31, 2013 and through April 24, 2014, the date on which the accompanying consolidated financial statements were issued. During this period, there were no subsequent events that required recognition or disclosure in the accompanying consolidated financial statements.

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Single Audit Report in Accordance With OMB Circular A-133 and State of Florida Chapter 10.650, *Rules of the Auditor General*
December 31, 2013

McGladrey

Assurance · Tax · Consulting

Contents

McGladrey

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Variety Children's Hospital, Inc.
d/b/a Miami Children's Hospital
Miami, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Variety Children's Hospital, Inc. d/b/a Miami Children's Hospital (the Hospital), which comprise the consolidated statement of financial position as of December 31, 2013; the related consolidated statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the financial statements, and have issued our report thereon dated April 23, 2014. Our report includes a reference to other auditors who audited the financial statements of Miami Children's Hospital Foundation, Inc., as described in our audit report on the Hospital's consolidated financial statements. The financial statements of Miami Children's Hospital Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Miami Children's Hospital Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Member of the RSM International network of independent accounting, tax and consulting firms.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of the Hospital in a separate letter dated April 23, 2014.

Purpose of This Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Miami, Florida
April 23, 2014

McGladrey

Report on Compliance for Each Major Federal Program and State Project; Report on Internal Control Over Compliance Required by OMB Circular A-133 and State of Florida Chapter 10.650, *Rules of the Auditor General;* and Report on the Schedules of Expenditures of Federal Awards Required by OMB Circular A-133 and State Financial Assistance Required by State of Florida Chapter 10.650, *Rules of the Auditor General*

To the Board of Directors
Variety Children's Hospital, Inc.
d/b/a Miami Children's Hospital
Miami, Florida

Report on Compliance for Each Major Federal Program and State Project

We have audited Variety Children's Hospital, Inc. d/b/a Miami Children's Hospital's (the Hospital) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of the Hospital's major federal programs and state project for the year ended December 31, 2013. The Hospital's major federal programs and state project are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The Hospital's consolidated financial statements include Miami Children's Hospital Foundation, Inc. (the Foundation), which was audited by other auditors. No amounts of federal awards or state financial assistance of the Foundation, if any, are included in this report.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs and the state projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs and state project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and State of Florida Chapter 10.650, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and State of Florida Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state project. However, our audit does not provide a legal determination of the Hospital's compliance.

Member of the RSM International network of independent accounting, tax and consulting firms.

Opinion on Each Major Federal Program and State Project
In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state project for the year ended December 31, 2013.

Report on Internal Control Over Compliance
Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program or state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state project and to test and report on internal control over compliance in accordance with OMB Circular A-133 and State of Florida Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program or state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on the Schedules of Expenditures of Federal Awards Required by OMB Circular A-133 and State Financial Assistance Required by State of Florida Chapter 10.650, *Rules of the Auditor General*

We have audited the consolidated financial statements of the Hospital as of and for the year ended December 31, 2013, and have issued our report thereon dated April 23, 2014, which contained an unmodified opinion on those consolidated financial statements. Our report included a reference to other auditors. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by OMB Circular A-133 and the State of Florida Chapter 10.650, *Rules of the Auditor General*, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures of federal awards and state financial assistance are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Miami, Florida
April 23, 2014

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Expenditures of Federal Awards
United States Department of Defense			
Direct programs:			
Research and development-cluster:			
Military Medical Research and Development	12.420	W81XWH-06-1-0663	$ 204,670
Military Medical Research and Development	12.420	W81XWH-09-1-0295	107,679
Total United States Department of Defense			312,349
United States Department of Education			
Direct program:			
Special Education—Grants for Infants and Families	84.181	COQTY	1,538,450
Total United States Department of Education			1,538,450
United States Department of Health and Human Services			
Direct programs:			
Affordable Care Act (ACA) Primary Care Residency Expansion Program	93.510	T89HP20722	577,800
Affordable Care Act (ACA) Primary Care Residency Expansion Program	93.510	T89HP20763	406,449
Total Affordable Care Act (ACA) Primary Care Residency Expansion Program			984,249
Grants for Primary Care Training and Enhancement	93.884	D88HP20127	317,459
Indirect programs:			
Research and development cluster:			
Pass-through John Hopkins University Food and Drug Administration Research	93.103	R01FD003898-03	500
Pass-through The Florida International University Board of Trustees Nursing Research	93.361	800000641-03	11,050
Pass-through Children's Oncology Group Cancer Treatment Research	93.395	U10CA098543	74,350
Pass-through Children's Hospital Medical Center Extramural Research Programs in the Neurosciences	93.853	5U01NS045911 - 08	22,680
Pass-through University of South Florida Children's Health Insurance Program	93.767	1ZOCMS331231-01-00	10,267
Pass-through State of Florida Department of Health Maternal and Child Health Services Block Grant to the States	93.994	COQPW	69,349
Total Indirect programs			188,196
Total United States Department of Health and Human Services			1,489,904

(Continued)

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Expenditures of Federal Awards
United States Department of Homeland Security			
Indirect program:			
Pass-through State of Florida			
Homeland Security Grant Program	97.067	11DS-A1-11-16-02-487	28,623
Total United States Department of Homeland Security			28,623
National Science Foundation			
Indirect program:			
Research and development cluster:			
Pass-through The Florida International University Board			
of Trustees Trans-NSF Recovery Act Research Support	ARRA - 47.082	CNS-0959985	8,804
Total National Science Foundation			8,804
Total expenditures of federal awards			$ 3,378,130

See Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance.

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Schedule of Expenditures of State Financial Assistance
Year Ended December 31, 2013

State Agency/Program Title	State CSFA Number	Grant or Contract Number	Expenditures of State Financial Assistance
State of Florida Department of Health			
Direct programs:			
Maternal and Child Health Services Block Grant to States	64.007	COQPW	$ 204,262
Trauma Center Financial Support	64.075	TRA12	91,107
Total State of Florida Department of Health			295,369
State of Florida Department of Education			
Direct program:			
Special Education Grants for Infants and Families	MOE-84.181	COQTY	1,450,147
Total State of Florida Department of Education			1,450,147
Total expenditures of state financial assistance			$ 1,745,516

See Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance.

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance
Year Ended December 31, 2013

Note 1. Basis of Presentation

The accompanying schedules of expenditures of federal awards and state financial assistance (the Schedules) include all of the federal grant activity and state projects of the Hospital and are presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Florida Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in the Schedules may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. Because the Schedules present only a selected portion of the operations of the Hospital, they are not intended to, and do not, present the financial position, changes in net assets, or cash flows of the Hospital.

The Hospital allocates indirect costs to each program based on the percentage of program expenses to agency-wide expenses.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, and State of Florida Chapter 10.650, *Rules of the Auditor General*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

I. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weakness (es)? _____ Yes __X__ None reported

3. Noncompliance material to financial statements noted? _____ Yes __X__ No

B. Federal Awards

1. Internal control over major programs:

- Material weakness(es) identified? _____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes __X__ None reported

2. Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes __X__ No

3. Identification of major programs:

Tested as a major program:

CFDA Number	Name of Federal Program or Cluster
84.181	Special Education—Grants for Infants and Families
93.884	Grants for Primary Care Training and Enhancement
12.420/ ARRA - 47.082 93.103/93.361 93.395/93.853	Military Medical Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? _____ Yes __X__ No

(Continued)

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2013

C. State Financial Assistance

1. Internal control over major programs:

• Material weakness(es) identified?	____ Yes	_X_ No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes	_X_ None reported

2. Type of auditor's report issued on compliance for major programs: Unmodified

• Any audit findings disclosed that are required to be reported in accordance with State of Florida Chapter 10.650?	____ Yes	_X_ No

3. Identification of major project:

Tested as a major project:

CSFA Number	Name of State Project
MOE-84.181	Special Education Grants for Infants and Families

Dollar threshold used to distinguish between Type A and Type B projects: $300,000

II. FINANCIAL STATEMENT FINDINGS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

IV. FINDINGS AND QUESTIONED COSTS FOR STATE FINANCIAL ASSISTANCE

None

Variety Children's Hospital, Inc.
(A Florida Not-for-Profit Organization)
d/b/a Miami Children's Hospital

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2013

I. CONSOLIDATED FINANCIAL STATEMENT FINDINGS

Finding 2012-01: Significant Deficiency: Audit Misstatements

Corrective action has been taken.

II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-02: Internal Control Environment—Cash Management

Corrective action has been taken.

Finding 2012-03: Internal Control Environment—Reporting

Corrective action has been taken.

Finding 2012-04: Internal Control Environment—Equipment

Corrective action has been taken.

McGladrey LLP

801 Brickell Avenue, Suite 1050
Miami, FL 33131
O 305.446.0114 F 305.442.7478
www.mcgladrey.com

McGladrey

To Management and the Audit and Compliance Committee
Variety Children's Hospital, Inc. d/b/a Miami Children's Hospital

In planning and performing our audit of the financial statements of Variety Children's Hospital, Inc. d/b/a Miami Children's Hospital (the Hospital) as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when *(a)* a control necessary to meet the control objective is missing, or *(b)* an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Hospital's written responses to the deficiencies identified in our audit were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Following are descriptions of identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Password Configurations

Criteria: Strong password security controls are in place to keep sensitive data from being accessed and restricted to authorized personnel.

Condition: We noted that configured network password configuration settings over minimum character length and complexity requirements do not meet the minimum requirements as stated in the Appropriate Use of Information Technology Policy. We noted that the policy requires a minimum of 8 characters and complexity enabled, while the network password configurations are set at a minimum of 6 characters and complexity disabled.

Effect: Risks include unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: We recommend management to adjust the password minimum length and complexity password configuration settings to meet the minimum requirements as stated in the Appropriate Use of Information Technology Policy.

Member of the RSM International network of independent accounting, tax and consulting firms.

Views of Responsible Officials and Planned Corrective Actions: Currently, there are established policies around password reset at initial logon, forced password changes, number of passwords used prior to re-use, idle session time-out and failed logon attempts on our Active Directory domain. Although Management agrees with the recommendation and we are working to increase the minimum password requirements, we must mention that there are significant compensating controls (e.g. Imprivata OneSign RFID Authentication, enforced unique network logins, restricted privileges on workstations, network intrusion and anomaly detection systems) present to protect the platforms within the scope of this audit.

User Access Administration

Criteria: Procedures are in place so that user accounts are added, modified and deleted in a timely manner to reduce the risk of unauthorized/inappropriate access to the Hospital's relevant financial reporting applications or data.

Condition: We noted that of the 11 new hire samples selected, one sampled employee had AS400 access but did not have an AS400 new hire ticket available to document management's approval and the system access rights required for the new employee (initials J.V.).

Cause: The defined process of providing access only when a request ticket is present was not followed.

Effect: Risks include unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: Management should consistently complete and approve new hire provisioning forms to ensure no access is granted without an approved, documented request specifying the user access rights required for an employee.

Views of Responsible Officials and Planned Corrective Actions: The employee selected (i.e. Jenny Valdez) was an MCH rehire and verified by her current Director to be holding the appropriate AS400 access level for her current role. In order to improve the current User Access Administration process, we have invested and are in the process of implementing an Identity and Access Management Solution that will enable automated user provisioning based on job role and allow business managers to review, authorize, and certify user access rights.

User Access Reviews

Criteria: Access rights to the Hospital's relevant financial reporting applications or data are monitored periodically by management.

Condition: We noted periodic user access reviews are not being performed for the network, Lawson, or McKesson.

Cause: No process is in place to require periodic review of employee system access rights.

Effect: Risks include unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: We recommend management to create a formalized process to review system user access rights for the network, Lawson, and McKesson at least annually. The user access review should determine that only active employees have active system ID's. In addition, management should determine as part of the annual user access review that configured access rights are appropriate based on the employee's roles and responsibilities. This review should indicate who performed the review, when the review was performed, and if any access changes are required.

Views of Responsible Officials and Planned Corrective Actions: Periodic review is typically performed by the Access Control Team in agreement with the Systems Audit Methodology for Core hospital systems. Lawson user accounts were reviewed on January 28, 2013 and documented in SDE ticket #375345 and McKesson user accounts were reviewed on December 28, 2012 and documented in SDE ticket #362338 by the IT Access Control Team. More granular application access reviews were taken by the Business Systems Team during December 2013. Management agrees that the current manual and very time-consuming review process can improve. For that reason, we are in the process of implementing an Identity and Access Management Solution that will enable business managers to review and certify user access privileges. We will also enable them to take remedial action when they identify access rights that are inconsistent with employee role, policy or regulatory requirements.

Segregation of Duties for Migrating Changes

Criteria: Controls are in place to restrict access for migrating changes into the production environment for systems and applications used during the financial reporting process.

Condition: We noted that there is no segregation of duties between users who develop a change and migrate the change into production for McKesson.

Cause: There is no formalized policy over segregation of duties for migrating changes in McKesson.

Effect: Risks include unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: We recommend management create a formalized policy over restricting access to the production environment for McKesson. Personnel who develop changes should not have rights to make changes within the production environment. If segregation of duties is not possible, then a monthly review of all changes should be conducted by personnel without access to make changes to determine that changes implemented in production are appropriate and have undergone the Hospital's change management process.

Views of Responsible Officials and Planned Corrective Actions: Although IT programmers have updated the McKesson "production" environment only in conjunction with Change Advisory Board approved Change Requests, management agrees with the observation. Improvements in the segregation of duties will be included in the move to a Role-based Access Control model with the deployment of Cerner ProFit during Q3 of 2014.

Data Recovery

Criteria: Data recovery testing is performed periodically to test the effectiveness of the restoration process and determine that data, transactions and programs that are necessary for financial reporting can be recovered.

Condition: We noted restorations are not being performed on a periodic basis for Lawson or McKesson to test the effectiveness of the backups being performed.

Cause: The backup and restoration policy does not require a restoration be performed for Lawson or McKesson on a periodic basis.

Effect: Risks include modification, damage, or loss of data.

Recommendation: We recommend management formally document restoration procedures to include periodic restoration of Lawson and McKesson backup media.

As part of our audit procedures, we also analyzed the significant deficiencies and deficiencies reported in the prior year Communication of Significant Deficiencies and Deficiencies. We reviewed the findings, discussed the findings with management, and verified that the correction action plans were properly initiated. There were no material weaknesses identified in the prior year.

<u>**Views of Responsible Officials and Planned Corrective Actions**</u>: Management agrees with the recommendation and will implement procedures to test the effectiveness of the restoration process to ensure the data is usable for recovery purposes.

Prior Year Significant Deficiency

A significant number of audit misstatements were identified– some with only balance sheet impact and others impacting the Hospital's consolidated statement of operations. Some were corrected by management and are reflected in the Hospital's financial statements; others were not corrected by management. – **This significant deficiency was not repeated in the current year.**

Prior Year Deficiencies

2012 – 01 Financial statement close process, timeliness of review – **This deficiency was not repeated in the current year.**

2012 – 02 Financial statement preparation process and review – **This deficiency was not repeated in the current year.**

2012 – 03 Payroll process, segregation of duties – **This deficiency was not repeated in the current year.**

2012 – 04 Third party settlements – **This deficiency was not repeated in the current year.**

2012 – 05 Canavan Health Partners, LLC – **This deficiency was not repeated in the current year.**

2012 – 06 Measurement of revenue from retail pharmacy – **The Hospital is still developing a methodology to capture and report actual gross receipts from retail pharmacy as UBTI and ensuring the expenses be allocated against such income using a reasonable allocation method that accurately reflects expenses allocable between related and unrelated pharmacy activity.**

2012 – 07 Alternative investments – **This deficiency was not repeated in the current year.**

2012 – 08 Accounting for tenant allowances – **This deficiency was not repeated in the current year.**

This communication is intended solely for the information and use of management, the Audit and Compliance Committee, the Board of Trustees, and others within the Hospital, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey LLP

McGladrey LLP

Miami, Florida
April 23, 2014

OMB No. 0348-0057 09/17/2013	U.S. Dept. of Comm. - Econ and Stat Admin. - U.S. Census Bureau ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET
GENERAL INFORMATION	REPORTID: 594049 VERSION:1
1. Fiscal Period End Date	**2. Type of Circular A-133 Audit**
12/31/2013	**Single Audit**
3. Audit Period Covered	If Audit Period Other, Number of months
Annual	
4. Auditee Indentification Numbers	
a. Auditee Employer Identification Number (EIN)	**d. Auditee Data Universal Numbering System (DUNS) Number**
59-0638499	**04-746-9051**
b. Are multiple EINS covered in this report?	**e. Are multiple DUNS covered in this report?**
No	**No**
If Yes, the additional EINs are listed on	If Yes, the additional DUNS are listed on
Additional EINS	Additional DUNS
5. AUDITEE INFORMATION	**6. PRIMARY AUDITOR INFORMATION**
a.Auditee Name	a.Audit Firm / Organization Name
VARIETY CHILDREN'S HOSPITAL D/B/A MIAMI CHIL	**MCGLADREY LLP**
	b.Audit Firm / Organization EIN
	41-0714325
b.Auditee Address (Number and street)	c.Audit Firm / Organization Address (Number and street)
3100 S.W. 62 AVENUE	**801 BRICKELL AVENUE SUITE 1050**
Auditee City	Auditor Firm/Organization City
MIAMI	**MIAMI**
Auditee State	Auditor Firm/Organization State
FL	**FL**
Auditee ZIP Code	Auditor Firm/Organization ZIP Code
33155-3009	**33131-0000**
c.Auditee Contact Name	d.Primary Auditor Name
TIMOTHY BIRKENSTOCK	**DONNOVAN MAGINLEY**
Auditee Contact Title	Primary Auditor Title
CFO	**PARTNER**
d.Auditee Contact Telephone	e.Primary Auditor Contact Telephone
(305)666-6511	**(305)442-8801**
e.Auditee Contact Fax	f.Primary Auditor Contact Fax
(305)663-6815	**(305)442-7478**
f.Auditee Contact E-mail	g.Primary Auditor Contact E-mail
TIM.BIRKENSTOCK@MCH.COM	**DONNOVAN.MAGINLEY@MCGLADREY.COM**
	7. Was a secondary auditor used?
	No
	8. If Yes, the additional auditors are listed on
	Secondary Auditors

Form SF-SAC Single Audit Data Collection Form	REPORTID: 594049 VERSION:1

FINANCIAL STATEMENTS SUMMARY

1.Type of audit report

Unmodified

2. Is a 'going concern' emphasis-of-matter paragraph included in the audit report?

No

3.Is a significant deficiency disclosed?

No

4.Is a material weakness disclosed?

No

5.Is a material noncompliance disclosed?

No

FEDERAL PROGRAMS SUMMARY

1.Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending $500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide)

No

2.What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § _.520(b))

$300,000

3.Did the auditee qualify as a low-risk auditee? (§_.530)

No

4.Were Prior Audit Findings related to direct funding shown in the Summary Schedule of Prior Audit Findings? (§_.315(b))

Yes

5.Indicate which Federal agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding.

93 - Department of Health and Human Services
84 - Department of Education
97 - Department of Homeland Security

Form SF-SAC Single Audit Data Collection Form							REPORTID: 594049 VERSION:1			
6. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR										
Federal Agency Prefix [1]	Extension [2]	Federal Program Name	Amount Expended	R&D	Loan/Loan Guarantee	ARRA [3]	Direct Award	Major Program (MP)	If yes (MP), type of audit report [4]	Number of Audit Findings
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
12	420	MILITARY MEDICAL RESEARCH AND DEVELOPME	$204,670	Y	N	N	Y	Y	Unmodified	0
12	420	MILITARY MEDICAL RESEARCH AND DEVELOPME	$107,679	Y	N	N	Y	Y	Unmodified	0
84	181	SPECIAL EDUCATION—GRANTS FOR INFANTS ANI	$1,538,450	N	N	N	Y	Y	Unmodified	0
93	510	AFFORDABLE CARE ACT (ACA) PRIMARY CARE RE	$577,800	N	N	N	Y	N		0
93	510	AFFORDABLE CARE ACT (ACA) PRIMARY CARE RE	$406,449	N	N	N	Y	N		0
93	884	GRANTS FOR PRIMARY CARE TRAINING AND ENH	$317,459	N	N	N	Y	Y	Unmodified	0
93	103	FOOD AND DRUG ADMINISTRATION RESEARCH	$500	Y	N	N	N	Y	Unmodified	0
93	361	NURSING RESEARCH	$11,050	Y	N	N	N	Y	Unmodified	0
93	395	CHILDREN'S ONCOLOGY GROUP CANCER TREATN	$74,350	Y	N	N	N	Y	Unmodified	0
93	853	RESEARCH PROGRAMS IN THE NEUROSCIENCES A	$22,680	Y	N	N	N	Y	Unmodified	0
93	767	CHILDREN'S HEALTH INSURANCE PROGRAM	$10,267	N	N	N	N	N		0
93	994	MATERNAL AND CHILD HEALTH SERVICES BLOCK	$69,349	N	N	N	N	N		0
97	067	HOMELAND SECURITY GRANT PROGRAM	$28,623	N	N	N	N	N		0
47	082	ONSF RECOVERY ACT RESEARCH SUPPORT-ARRA	$8,804	Y	N	Y	N	Y	Unmodified	0
		Total Federal Awards Expended:	$3,378,130							

Form SF-SAC Single Audit Data Collection Form REPORTID: 594049 VERSION:1

7. FEDERAL AWARD FINDINGS

Federal Agency Prefix	Extension	Federal Program Name	Audit Finding Reference Number	Type(s) of Compliance Requirement(s) [1]	Compliance Findings [2]: Modified Opinion	Compliance Findings [2]: Other Matters	Internal Control Findings [2]: Material Weakness	Internal Control Findings [2]: Significant Deficiency	Other Findings [2]	Questioned Costs
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)

1 Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under §_.510(a)) reported for each Federal program.

2 There are 9 valid combinations of 'Compliance Findings,' 'Internal Control Findings,' and 'Other Findings' for each Federal program with findings. (See Instructions - Item 7)

Form SF-SAC Single Audit Data Collection Form	REPORTID: 594049 VERSION:1
PART I, Item 4c. AUDITEE EIN CONTINUATION SHEET (FROM PART I, ITEM 4b)	

Additional EINs

Form SF-SAC Single Audit Data Collection Form	REPORTID: 594049 VERSION:1
PART I, Item 4f. AUDITEE DUNS CONTINUATION SHEET (FROM PART I, ITEM 4e)	

Additional DUNS

Form SF-SAC Single Audit Data Collection Form									REPORTID: 594049 VERSION:1	
PART I, Item 8, SECONDARY AUDITORS' CONTACT INFORMATION										
Auditor Firm Name	Auditor EIN	Auditor Address	City	State	ZIP Code	Contact Name	Contact Title	Contact Phone	Contact Fax	Contact E-mail
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)

Form SF-SAC Single Audit Data Collection Form	REPORTID: 594049 VERSION:1
CERTIFICATIONS	
Auditee Certification Statement	**Auditor Statement**
This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.	The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. Except for Part III, Items 4, 5, 6a-6h, and, when audit findings are reported, 7a-7c, the information included in Parts II and III of this form was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.
Auditee Certification	**Auditor Statement**
ELECTRONICALLY CERTIFIED: 5/17/2014	ELECTRONICALLY CERTIFIED: 5/15/2014
Name of certifying official	
TIMOTHY BIRKENSTOCK	
Title of certifying official	
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER	

[1] The letters entered in the 'Type(s) of Compliance Requirements' field apply to audit findings (i.e., noncompliance, significant deficiency (including questioned costs, fraud, and other items reported under §_.510(a)) reported for each Federal program:

A. Activities Allowed or Unallowed
B. Allowable costs/cost principles
C. Cash management
D. Davis-Bacon Act
E. Eligibility
F. Equipment and real property management
G. Matching, level of effort, earmarking
H. Period of availability of Federal funds
I. Procurement and suspension and debarment
J. Program income
K. Real property acquisition and relocation assistance
L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
O. None (2008 through 2012 Only)
P. Other